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THE PHILIPPINE NATIONAL BANK

Within the past year the government of the Philippine Islands has organized and set in operation an institution known as the Philippine National Bank. This Bank was created under an act passed by the Insular Legislature on February 4, 1916, was finally incorporated on May 2, 1916, undertook business upon a limited basis during the latter part of the same month, occupied its permanent quarters and definitely opened its business operations upon a complete footing on July 24, and declared an earned dividend of 18 per cent as of December 31. During the first eight months of its existence, ending December 31, 1916, the institution incurred and paid expenses amounting to about 536,000 pesos (including interest on deposits) and found itself with residual earnings amounting to 360,000 pesos.[1] It is therefore an actually organized institution, operating upon a scale large for its locality, and, as such, of interest to all students of banking.

The Philippine National Bank is, however, more than this. It is for the United States a new form of government activity in the business field, an attempt to dispose of certain pressing economic problems through organized effort, and a development of large interest in its influence upon the relations between the United States and the Philippine Islands. As an element in the colonial

[1] The Philippine peso is equivalent to fifty cents in United States money.

problem of the United States, as an instance of government enterprise, and as a special outgrowth of the peculiar conditions of trade brought about by the present European war, the Bank is worthy of careful study and analysis.

I

Banking conditions in the Philippine Islands have long been of a somewhat peculiar character. American banking capital has never taken any deep root there. Branches of the great English-oriental institutions—the Hongkong & Shanghai, and the Chartered Bank of India, Australia, and China—have long exerted a dominating influence in the local banking field. The International Banking Corporation, organized under a Connecticut charter, established a branch in the Philippines some years ago and has enjoyed a share of insular business ever since. The Bank of the Philippine Islands, primarily owned and controlled by local interests, had been established for many years under Spanish domination, but upon assumption of American control was obliged to surrender many of its monopolistic features and to accept a new charter, which, however, gave it a valuable privilege of note issue. One or two American banks of small capitalization and unsuccessful management came into existence and speedily collapsed, after the taking over of the Islands by the United States. So long as the old Spanish currency existed as the medium of exchange, there was a rich harvest for foreign banking institutions in manipulation of rates of exchange. With the advent of the new currency system, based upon the gold-exchange standard and maintained at a stable valuation by the Treasury of the Philippines, the opportunity for much of this manipulation was removed, but the profits formerly derived from currency fluctuations have of late years been obtained through rigid control of rates of interest and of exchange on foreign countries, so that the cost of banking accommodation to the individual has always been high.

Moreover, branches of foreign banking institutions located in Manila have never been banks in the full sense of the term. Their managers have doubted the wisdom, from a business standpoint, of employing their capital in the development of natural resources,

and have chosen to confine themselves, so far as possible, to operations growing out of exportations and importations, the conversion of foreign currency, and transfers of funds. In this they have been followed by the International Banking Corporation, which for many years has been in business methods to all intents and purposes an English bank.[1] The Bank of the Philippine Islands, organized with local capital, has adopted a different policy, extending both agricultural and industrial loans. The capital of the Bank of the Philippine Islands, the only institution immediately concerned in the actual development of insular resources, has, however, not been large enough to enable it to meet the demands for assistance which were thus brought to bear upon it.

In order to supplement the incomplete machinery of banking in the Philippines, there has been a growth of local money-lenders. The mortgage business in the Islands has flourished. Loans upon prime city real estate in Manila at 10 per cent represent the "gilt-edged" element of the paper, while loans at 12 and 15 per cent, upon slightly less choice property have been frequent. In the provinces farm loans at 2 per cent per month are normal, while a rate of $1\frac{1}{2}$ per cent per month marks the maker of the loan as somewhat of a philanthropist. The peasant-tenant cultivator who does not own his land is accommodated with crop loans at about 4 and 5 per cent per month, running usually for from 4 to 6 months. The government employee or salaried man, temporarily "hard up," can usually obtain accommodation at about 2 per cent per month. In this business of money-lending all classes have participated. The Catholic church is a large lender of funds on real estate, while high government officials, judges of the courts, and others have from time to time not hesitated to accommodate their associates at from $1\frac{1}{2}$ to 2 per cent per month. The situation is defended on the ground that the crop yields are uncertain, borrowers not very reliable, and American retention of the Islands likely to end at some time in the future—a group of explanations having no particular bearing upon the circumstances. The situation of the landowner or of the tenant farmer under the borrowing conditions just described can well be imagined. The small man with a few acres

[1] It has, however, been lately taken over by the National City Bank of New York.

of ground and a carabao[1] or two negotiates a loan from some local capitalist at an exorbitant rate of interest. This loan is frequently paid in rice at prevailing market rates and suffices to sustain the laborer and his family while the new crop is growing. If this crop itself consists of rice, the loan is repaid with the increase called for by the rate of interest already referred to, and the cost is probably enhanced by the fact that the price of rice is much lower at harvest time than it was when the crop was put in. The surplus of the laborer is not enough to carry him well into the new season and, as a rule, he is soon obliged to borrow back the rice which he has just paid to the money-lender. The result is to place him in a practical condition of servitude from which he can never emerge. If under these circumstances he becomes somewhat slothful and indifferent, inclined to quit work and to live merely on the natural fruits of the soil, perhaps his moral responsibility is not so serious as it would otherwise be.

In order to relieve this situation in some measure and to improve the general economic position of the Islands, the government has for several years past followed the plan of making loans from public funds for the purpose of facilitating the production of certain staple crops. This has gradually developed into a system whereby the bulk of the funds has gone to the sugar industry. There are several reasons for this development. First of all, the cultivation of sugar calls for large-scale enterprise and heavy investment. Payments to labor must be made in advance in many cases, and the outlay for machinery and transportation is larger perhaps than in any other field. The consequence has been that the negotiating of large loans by sugar-planters has become an annual necessity for which the government has endeavored to provide. In order, moreover, to furnish permanent assistance in the development of agriculture, the Philippine government some years ago established an Agricultural Bank. This Bank was provided with an initial capital of 1,000,000 pesos and it also had the use of funds which it received on deposit from provincial treasurers throughout the Islands. It made long loans to cultivators, but these all tended more and more toward the sugar

[1] Water-buffalo, the ordinary draft animal of the Philippines.

industry. Thus government aid in mortgage banking, as in current assistance to agricultural interests, drifted toward the form of a special subsidy.

II

While, as already seen, the Insular government had been gradually driven into undertaking certain banking enterprises for the purpose of promoting the general welfare and supplying the deficiencies of existing banking machinery, it had also (and at an early date) become involved in banking operations of a highly specialized type as a result of its currency methods. Under the Spanish régime there had been created in the Islands an unsatisfactory monetary standard, based upon silver and fluctuating severely in accordance with the changes in the bullion value of that metal as well as in accordance with variations in rates of exchange upon Chinese markets. The American government very early recognized the unwisdom of attempting to maintain this standard and in 1902 adopted a provision for a so-called "gold-exchange" standard. The essential idea underlying the plan was that of the issue of silver coins called pesos and of paper representative of these coins. These issues were to be maintained at an equivalence of value with American currency. The peso was supposed to be worth at par fifty cents, although in order to keep it in circulation its actual bullion value was reduced much below that figure. A fund known as the Gold Standard Fund was created, the government assuming the responsibility of exchanging pesos under specified conditions for American currency, and vice versa. The Gold Standard Fund was kept in part in banks in the United States, and, inasmuch as most of the "redemptions" likely to be asked for were requested for the purpose of providing funds in the United States, the government further undertook to convert pesos into American dollars at the rate of two for one, minus an exchange charge of three-fourths of 1 per cent for mail transfers to New York or $1\frac{1}{4}$ per cent for transfers by cable. This was equivalent to redeeming Philippine pesos at par in Manila and (with an exchange commission) in New York as well. There has never been any reason to doubt the satisfactory working of this system of

redemption. While redemptions have been comparatively small, they have been due to the almost entire absence of demand for conversion of local currency into American money and to the confining of requests for redemption to the remittance side of the business. It has always been conceivable that, in the event of a heavy balance of trade resulting in large payments to the United States, those in the Philippines who wished to make such payments might draw very sharply upon the resources of the Gold Standard Fund, thereby placing upon the government the duty of equalizing this burden. Such a situation has never come into existence, although the Philippines have frequently been in a favorable trade position with respect to the United States and also other foreign countries. The fact that heavy payments are constantly being made from the army funds for the maintenance of our troops in the Philippines has more than offset any redemptions that the government might otherwise have had to make in the conduct of its Gold Standard operations. One effect, however, of the Gold Standard activities of the government was probably unexpected by those who designed the system. The charges for mail and cable transfers fixed by the Treasury have tended to become the minimum at which banks in the city of Manila were willing to do business. Knowing that the published rates of the government naturally tended to be regarded by the public as those that were justified by economic conditions, and relying upon the community of interest among local banking institutions, the bankers have, perhaps not unnaturally, regarded three-fourths of 1 per cent as the minimum upon which exchange business with New York should be undertaken. By a natural analogy, other exchange rates have tended to be bottomed upon a like charge—that is to say, three-fourths of 1 per cent has been treated as the minimum rate for all exchange, and it has been argued that if a rate of three-fourths of 1 per cent was fixed in dealing with a country of established currency such as the United States the normal charge on those countries where currency was unstable must be very much higher.

The main trouble in conducting the Gold Standard exchange system has been due, not to technical difficulties, but to the constant desire to use the resources of the Gold Redemption Fund for

the various purposes that have been regarded as essential to the welfare of the Islands. Experience has shown that the Gold Redemption Fund was probably much higher in the beginning than it needed to be. It originally was about 20 per cent of the claims against it, but promptly rose to 43 per cent. This figure was subsequently reduced by law to 35 per cent. In practice the investment of a portion of the Fund in loans to individuals and enterprises of various descriptions has since then cut the actual cash resources of the Fund as low as 18–20 per cent. It has been evident, moreover, that in many cases the undertakings in which Gold Standard funds had been invested could hardly be expected to make reimbursement for these advances at an early date if, perhaps, at any time.

III

The question how to deal with the various conditions growing out of the government's various financial undertakings and out of the failure on the part of existing banks to provide adequately for the necessities of the community was taken under advisement during the year 1915, and it was agreed that the best means of relieving the situation would probably be the adoption of an act providing for the creation of a strong banking institution under government control. A bill providing for such an institution was accordingly presented at the autumn meeting of the legislature in 1915 and was adopted, as already seen, on February 4, 1916.[1] In general, the new law provided for the creation of a bank with a capital of 20,000,000 pesos, or $10,000,000 in gold, of which a little more than half, or 10,100,000 pesos, was to be owned by the government. The government's subscription to the stock of the institution was to be made in two forms: first, by the transfer of the assets of the older Agricultural Bank; secondly, by subscription of actual cash to the capital stock. The initial subscription was to be 1,000,000 pesos, and it was estimated that with the net assets of the Agricultural Bank this would result in providing a total paid capitalization at the outset of about 3,000,000 pesos. Subsequent subscriptions were to be paid by the government in July, 1916,

[1] No. 2612, Third Philippine Legislature, fourth session.

January, 1917, and thereafter at annual intervals until the 10,100,000 pesos had been liquidated. The funds for this purpose were appropriated accordingly. It was further provided that the balance of the stock should be placed on the same basis and might be taken up by individuals, firms, or corporations as they might see fit, always provided that the government should at all times retain a majority control. The management of the Bank was placed in the hands of seven directors, one of whom was to be a president, who should also act as chairman, and one vice-president. The first directors, of course, were necessarily to be appointed by the governor of the Islands, while subsequently a majority would be annually elected by the government, owing to its majority stock control.

The Bank itself was authorized to do a very varied business. In order to meet the agricultural necessities of the Islands, it was allowed to loan upon long-term mortgage securities to an amount equal to one-half of its capital and surplus. It might then hypothecate the mortgages representing these loans and sell bonds against them, the proceeds of such bonds to be thereupon loaned to the public upon new real estate mortgages. On the commercial side the Bank was authorized to do a general banking business, receiving deposits, opening foreign credits, and advancing money upon the usual kinds of security. Special provisions were introduced for the purpose of restricting the amount of loans that could be directly made upon single-name paper, while the limitation upon the margin of safety to be retained by the Bank in lending upon stored or harvested products was severe. The Bank was given power to erect and operate warehouses for the purpose of facilitating the storage of insular products, and either directly or by implication it was given authority to establish branches, rediscount bills, accept paper, and generally undertake every banking function. A limited note-issue power also was conceded to it. The act was more defective in its provisions with reference to reserves and in the technique of the language relating to banking operations as such. The number of officers provided for was inadequate, and a larger body of directors could have been much more efficiently organized. These inadequacies in the charter probably grew out of a failure

to realize the probable scope and significance which the undertaking might assume almost from its very beginning. In general, however, and despite various faults in technique, obscurities in language, and errors of principle, the act must be regarded as having provided for an institution of great scope, capable of good organization and management, provided with satisfactory opportunities for procuring capital, and vested with ample powers of operation. Perhaps the most significant phase of the law was that which constituted the new Bank the depositary and fiscal agent of the insular, provincial, and municipal governments of the Islands, and which authorized it to require provincial treasurers to act as its agents without extra salaries.

IV

The banking situation in Manila at the time of the adoption of the Philippine National Bank act had assumed an aspect extremely unfavorable for the commercial public. Only a few months before that time the so-called black-list policy of the British government had been developed to an unprecedented degree of severity. Owing to Great Britain's control of coaling-stations the world over and to her preponderating position as an owner of ocean tonnage, it had been possible to issue orders to banking institutions all over the world as to the credits and business which they should accept or reject. The technical purpose of these orders had been that of preventing belligerent nations opposed to Great Britain from getting any advantage or receiving any assistance in trade. In Manila, owing to the practical control of the banking situation by branches of British banks, the credit of many firms and individuals had been cut off, and they were left stranded or existing with only such sporadic banking assistance as they could from time to time obtain by sufferance or through some concealed channel. This condition was the more obnoxious in that British banking institutions in Manila were being operated at the time partly on the basis of funds deposited with them by the government, a condition of affairs which meant that the Islands' own funds were being used for the purpose of destroying their trade, subjecting their citizens to oppression by competitors, and generally carrying

into effect a system whereby the community at large was mulcted under the excuse that any other policy would be beneficial to Germans or other enemies of Great Britain. The Bank of the Philippine Islands was the only institution which had at all endeavored to disregard the orders issued by the British authorities, and its undertakings in this respect had necessarily been more or less limited. Refusal of tonnage facilities under the pretense of blacklist considerations had materially tended to assist the local clique of British merchants to obtain control of insular exports at prices very favorable to themselves, and the situation thus developed, if allowed to continue unremedied, would undoubtedly before long have brought widespread disaster to the commercial community. It had been intended to open the Philippine National Bank upon a comparatively limited scale, gradually obtaining its personnel, and laying plans for the expansion of the institution upon a slow, systematic basis. Conditions, however, plainly indicated that such a course would not relieve the difficulties of the case. The Bank had been technically incorporated on May 2,[1] and almost immediately upon its coming into existence it began to feel the urgent demands of persons who saw their resources in process of destruction or of transfer to others by reason of the policy which was being enforced against them by Great Britain. A review of the facts in the case furnished convincing evidence in support of the opinion that the Bank must be organized at once upon as complete a basis as possible and must devote itself particularly to facilitating the movement of insular products to foreign countries in order, not only to meet the necessities of business men, but also to prevent the local farmer from suffering the loss to which he would be subjected through the narrowing of his market and the cutting down of his prices as the result of the limitation of the competition of buyers. The first step, however, was necessarily that of installing a definite accounting system and of taking over the cash and assets which had been provided for the new institution. This involved a careful exami-

[1] The Bank as organized on May 2 was controlled by a board of seven directors as follows: H. Parker Willis, chairman and president; Vicente Singson Encarnación, W. H. Anderson, Leon Rosenthal, V. Concepción, directors; and Samuel Ferguson, vice-president. Charles C. Robinson was appointed secretary of the Bank with the rank of vice-president.

nation and canvass of the assets of the old Agricultural Bank, and eventually resulted in the assumption of all of its liabilities and the transfer of all of its assets, except a sum of about 900,000 pesos in mortgages which were either in default or for other reasons were deemed not good. As has already been seen, the sum of 1,000,000 pesos had been provided from the Treasury as an advance subscription by the government. Upon the transfer of the assets of the Agricultural Bank, therefore, the Philippine National Bank's accounts stood as follows (May 25, 1916):

Resources	Pesos	Liabilities	Pesos
Loans and discounts	5,460,641.00	Capital (paid in)	2,385,720.00
Interest accrued receivable	238,489.83	Undivided profits	53,985.88
Cash:		Deposits	9,184,155.56
With Insular Treasurer and in banks	5,571,505.07	Interest accrued payable	106,934.71
Due from agencies	562,777.35	Other liabilities	107,012.10
Other assets	4,305.00		11,837,718.25
	11,837,718.25		

This statement of condition was immediately issued to the public both as a booklet and as a paid advertisement in the newspapers, a step unusual in banking practice in the Philippines.

The question of a staff for the new Bank, which had been thought by some to be a matter of relative unimportance, now presented itself as a serious problem. The former Agricultural Bank had carried on its rolls a total of some fifteen persons, of whom three or four were employed as inspectors of agricultural lands. For various reasons it was deemed wise to change the staff of inspectors, but the other employees were transferred, thereby providing a nucleus for the Agricultural Division of the Bank's operations, beside furnishing a few men who had had a little experience that was likely to be of service to them in beginning work on the commercial side of the institution. To add to this nucleus men who had had satisfactory technical experience proved to be nearly impossible. In the oriental banks the prevailing custom dictates the payment of comparatively small salaries with an arrangement for a retiring allowance of relatively generous

amount after the employee has worked a certain number of years. This retiring allowance is, however, customarily forfeited if the employee enters the service of another bank, or if after retiring and while in receipt of his allowance he should connect himself with another institution. The purpose of this regulation is admittedly that of making it difficult for new banks to enter the field. It is therefore practically impossible to secure the services of experienced men, particularly of Europeans or Americans, while a second factor of large importance is found in the policy adopted by most oriental institutions of never employing natives in any responsible capacity. While this policy is nominally due to the claim that the natives are unreliable or dishonest, the real motive in it is found in the fact that not so strong a control can be exercised over the natives as over the foreigners. It is far easier for the native to shift his occupation, while his necessities are usually very much smaller than those of the European or American bank officer or employee. A thorough canvass of the field, therefore, sufficed at an early date to show that the notion of organizing a staff of experienced men to operate the Philippine National Bank was chimerical. This having been conceded, the next step was that of obtaining a satisfactory corps of trustworthy employees and of training them for their duties. Added to the considerations already mentioned was the fact that the banking methods employed in the Orient are not such as commend themselves. Delay, roundabout accounting, and lack of convenience for customers are a few of the factors which lead the observer to doubt whether, after all, experience in an oriental bank is likely to be of much value as a preparation for modern practice. During the months of May, June, and the first half of July the task of obtaining and drilling a small corps of bank employees was therefore taken in hand, and enough business was allowed to come into the Bank even before it had obtained any permanent quarters, to put the staff through the exercises necessary to familiarize them with the work they were to undertake. Eventually about fifty employees were given this preliminary training and appointed on a semi-permanent basis. As a more or less complete set of the essential books of account, orms, letters of credit, and other material had been brought from

the United States, it was possible to begin the actual training of the staff without unnecessary delay, and thus to shorten an inevitably tedious process. The accounting system introduced had been devised with a view to the utmost simplicity and at the same time with the idea of permitting the use of the "block system" of proof in order that errors, if committed, might be detected before their influence had gone far. While the theory upon which this accounting system was based was by no means understood by the rank and file of the employees, it was possible to train them in the actual use of it on a rule-of-thumb basis, and to feel at the end of about two months a degree of certainty that they would be able to operate it successfully. Another problem was that of obtaining efficient tellers. None could be secured who had had more than a very limited experience in the rapid counting and payment of money, so that an actual drill was necessary. Several men who had had good basic experience as cashiers, treasurers, etc., and who possessed the temperamental coolness necessary in this particular branch of bank duty, were selected and given an intensive schooling for a few weeks. The situation was somewhat more difficult because of the fact that, whereas in the Philippines all banking institutions differentiated between paying and receiving tellers, it was determined in the new Bank that the tellers should both pay and receive because of the greater speed and convenience of this system.

A feature of the new Bank which deserves special mention, although under ordinary circumstances no reference need be made to it, was that of the physical equipment of the institution. It was, of course, impossible to purchase bank fixtures, grills, vaults, etc., in the Philippine Islands, while the unusual congestion on American railways, lack of tonnage facilities, and other obstacles would have prevented purchase in the United States even had the great length of time necessary for shipment not stood in the way. Immediately after the technical organization of the Bank, therefore, it was decided to have everything manufactured in the Philippines. This involved the making of grillwork, banking screens, etc., by primitive hand methods, while all the furniture, fixtures, and equipment were prepared in the same way. In fact, there was scarcely an article in the Bank for which plans did not have to be

drawn, the process of manufacturing being thereupon undertaken with the simplest and most elementary equipment. This required time, and with the utmost of speed possible under the conditions it was estimated that two months would be necessary for the physical installation of the Bank. As a matter of fact, the time actually spent was about two months and a half, the Bank opening for business without awaiting the completion of the more complex and less necessary items in its equipment. It was fortunately able to collect from various sources a complete and satisfactory outfit of typewriters and adding and calculating machines.

It was with some trepidation that the officers of the Bank determined to begin operations with the improvised staff and equipment just described. But on July 24, after three days of very arduous preliminary drill for the staff, the opening was actually effected. It was a satisfaction to find that the preliminary work had been well done, and that during the first five months there was not a centavo of difference in the daily reconcilements, while the internal arrangement of the Bank, with a few minor changes, was found to be entirely satisfactory.

From the first the business expanded rapidly, and in spite of steady and persistent attack on that score the officers did not scruple to solicit accounts and to get them, an action repugnant to the prejudices of some elements of the public. The members of the business community, although at the start looking with suspicion upon the new institution, rapidly came to realize its possibilities and to intrust to it at least a portion of their funds. This was true, not only of concerns which had been blacklisted and otherwise attacked, but also of the houses whose standing was satisfactory even at the older banking institutions. The statement of condition of the Philippine National Bank at the close of business, December 31, 1916, was as follows:

ASSETS	PESOS
Loans and discounts	13,012,574.92
Unmatured foreign bills	2,965,266.29
Provincial overdrafts	30,437.02
U. S. government bonds	500,000.00
Philippine government bonds	286,000.00
Furniture and fixtures	70,659.12

ASSETS		PESOS
Interest accrued receivable		421,349.52
Exchange for future delivery		800,124.49
Cash, viz.:		
Due from branches	894,234.37	
Due from banks and bankers	7,016,358.40	
Due from foreign banks and bankers	12,832,533.15	
In vault and with Treasurer of P. I.	9,398,951.89	30,142,077.81
Customers liability L/C		2,557,987.36
		50,786,476.53

LIABILITIES		PESOS
Capital (paid in)		4,364,420.00
Profit and loss	359,332.93	
Unearned discount	62,497.87	421,830.80
Reserved for taxes		10,000.00
Reserved for fidelity bonds		953.94
Circulation		520,000.00
Deposits:		
Insular government	26,704,334.07	
Individual accounts	4,046,961.94	
Due to banks	523,325.72	
Due to branches	213,586.49	
Secretary's checks	78,030.32	
Fixed deposits	10,774,907.86	42,341,146.40
Acceptances		4,272.28
Interest accrued payable		146,900.76
Exchange contracts		800,124.49
Letters of credit		2,176,827.86
		50,786,476.53

Out of the profits of the Bank as thus indicated there was declared as of December 31, 1916, a dividend of 18 per cent, one-half of which was paid to stockholders while one-half was carried to reserve account.[1]

V

One phase of the organization of the Philippine National Bank, which deserves special attention because particularly characteristic, is yet to be described. This is found in the foreign and domestic ramifications of the bank and the effort to make it, not merely a

[1] This dividend was not, of course, computed on a flat basis, but represents a payment at the rate of 18 per cent per annum upon each subscription.

banking institution, but the central office of a system of banking. not only extending throughout the Islands, but possessing foreign connections of a well-organized sort.

Prior to the organization of the Philippine National Bank and before the president of the institution had left the United States, care had been taken to establish suitable American relationships, strong banks being designated as the correspondents in New York, San Francisco, and elsewhere; and in like manner satisfactory connections in Japan and on the China Coast had been provided for. It was one of the earliest duties of the officers of the bank to establish balances in London, Paris, and other principal European markets. This, however, was only a first step. In the Philippines, prior to the organization of the Philippine National Bank, there existed practically no banking facilities outside of Manila except at Iloilo and Cebu, where some sub-branches of the branches of the foreign banks located in Manila had been established. A branch of the Bank of the Philippine Islands at Iloilo was also in operation. The postal savings bank operated by the government was of some assistance, while the provincial treasurers had been authorized to act for the former Agricultural Bank in the performance of some limited banking functions. It was therefore urgent that the Philippine National Bank should proceed as soon as possible to the establishment of local connections, and for this the act creating the institution had made some provision by permitting the Bank to call upon provincial treasurers to act as its local managers without additional salary. Very soon, therefore, after the organization of the home office an order was issued under which provincial offices of the Bank situated at each of the provincial capitals were brought into existence. Suitable deposit slips, stationery, pass books, and the like were supplied, and these offices were directed to perform on behalf of the Philippine National Bank all those functions which they had formerly rendered to the Philippine Agricultural Bank as well as various others which were designated. Among the functions thus undertaken by the provincial offices are the receiving of deposits, the payment of checks, the transmission of funds to Manila or to other provincial offices, and the receiving and passing upon applications for loans, which are then transmitted

to Manila. The Bank, moreover, within the first few months of its life opened regularly equipped branches at Iloilo and Cebu and projected plans for the establishment of still others at important commercial points. With its two regularly organized branches and its thirty-seven agencies, all established during the first year of its existence, the institution had thus become, not merely a bank, but an extensive system ramifying throughout the Islands.

It remained for the Bank to enter the foreign field in a definite way, and as a first step in this direction it organized and opened on February 5, 1917, a New York agency or branch, whose duty it should be to open commercial credits, transmit them, promote the processes of exportation and importation between the Islands and the United States, and generally to perform all necessary banking functions except the receiving of deposits and the paying of money upon check. This branch, organized with a competent staff of employees and in charge of a manager who had rendered conspicuous service in the organization of the parent office at Manila, is already transacting a substantial business and returning to the home office a corresponding profit. A farsighted policy will continue the work thus begun by organizing other branches in those countries with which the Philippine Islands are most closely connected commercially and with which, therefore, the insular business may be expected to develop most rapidly.

Because, moreover, of close commercial relationship between the Islands and the United States, as well as because of the need of strong banking connections and the aid and support to be derived therefrom, the Philippine National Bank early made application for a connection with the federal reserve system. Under existing law no bank in the Philippine Islands may become a full member of the reserve system, the Islands being considered as a foreign country. The Federal Reserve Board, therefore, authorized the designation of the Philippine National Bank as foreign correspondent or agent under the provisions of Section 14 of the act, and a federal reserve bank, after due investigation, designated it as its representative in the Philippine Islands. Business relationships will shortly be begun under this designation, and the new bank thus becomes the oriental outpost of the federal reserve

system. It is an interesting circumstance that the Philippine National Bank was the first foreign agent or correspondent of the reserve system to be definitely designated, although negotiations had been begun with a large European institution, and the conclusion of a contract with it had been previously authorized, but not brought to a conclusion before the completion of arrangements for the relationship between the federal reserve system and the newly organized Philippine National Bank.

VI

Almost at the outset of the Bank's entry into business transactions it was found that the banking situation as a whole presented certain serious obstacles. Perhaps the most important of these lay in the fact that the other banks of the city had established a combination agreement whereby they regulated or controlled rates of interest and foreign exchange. The rate at which the government stood ready to furnish exchange on New York, namely, three-fourths of 1 per cent for mail transfers and $1\frac{1}{4}$ per cent for cable, was normally regarded as constituting a minimum, and rates ranged distinctly above these figures practically constantly. Theoretically, of course, it was possible for the public to obtain transfers through the Treasury at the rates mentioned, but practically, owing to obstacles of various kinds, this condition did not exist. The banks, therefore, through the close combination which existed between them, were able to maintain rates for foreign exchange without danger of interference from the Treasury, which in past years had at all times maintained a close working relationship with the banks. Not only was this the case, but, as already stated, the agreement had been extended to include practically every other banking relationship. Rates of interest to be paid on certificates of deposit and, under certain circumstances, upon current accounts, relations with the government, the rates charged for various classes of commercial paper, and a variety of other factors were the subject of control, this control often extending to the minutest detail. The question naturally occurred to the bankers almost from the organization of the new enterprise, What would be the position of the institution with reference to thi

"conference"? There was natural reluctance to admit the Bank fully to the conference because information would thereby be supplied to persons who might be critical or unfriendly, while, on the other hand, the idea of keeping the institution out of the conference was not acceptable because such action would imply the existence of an uncontrolled competitor. Eventually it was determined, not only to request, but to demand, that the Philippine National Bank should become a member of the Bankers' Conference and conform to its regulations, and this demand was courteously but positively placed before the institution. It was not, however, felt that the management of the Philippine National Bank, representative as it was of the public interests, could properly become party to the conference agreement, and, after a careful examination of the written contract governing the Bankers' Conference, the proposal was declined. It was subsequently on several occasions renewed, and at one time the proposal was accompanied by a sharp cut in exchange rates, whereupon the Philippine National Bank promptly withdrew from the market, leaving customers to satisfy their requirements wherever they chose to do so at the extremely reasonable new rates thus established. This "cut-rate" régime did not long continue, and the Bank was soon again in the market on a competitive basis. From the start sales of foreign exchange were made at commercial rates varying daily in accordance with cable quotations obtained from abroad. The result was to effect a great saving to the community in exchange, but the situation proved more and more unacceptable to the other banks because of the reduction in their earnings necessarily resulting from the fact that a competitive exchange market governed by prevailing rates had been established. This, however, being one of the main objects sought in the establishment of the Bank was a policy which could not be changed and which has consequently been adhered to throughout. In like manner it was early apparent that some changes in local rates of discount could be effected with profit to the business community, and rates on notes secured by staple commodities in warehouses were accordingly lowered, particularly when the goods were intended for export within a comparatively short time. The policy thus pursued

greatly stimulated competition in the market for staple products, with the result that the prices of all such products were very materially aided in their upward movement with correspondingly good results to the planter. Exceptional benefit was realized by the tobacco cultivator, who had for some years past been subjected to extremely difficult conditions in the sale of his product.

VII

Very early in the process of organizing the Philippine National Bank the announcement was officially and positively made that the Bank was a strictly neutral enterprise; that its managers were not interested in, and not affected by, the orders of any foreign government or the "Black List" prepared by any; that the loans of the Bank would be made after due examination of the solvency and reliability of the borrower and without any reference to his political or religious status. The policy was a new one in the Philippine Islands, but the result was helpful to many individuals. It was also a policy beneficial to the Philippine National Bank, which almost immediately developed a substantial clientèle from among persons who had been excluded from access to banking facilities, not because of any cloud upon their solvency or business methods, but for extraneous reasons. Many business men opened accounts with the Bank in the belief that they would be able to obtain from it a kind and quality of service based upon their necessities and the capacity of the Bank to aid them, and independent of "race, color, or previous condition of servitude."

It was believed that the existence of the unusual conditions in the market and the very great necessity of the community for banking accommodation held out an unexpected opportunity to reform some existing banking practices. In the Orient today credit is largely extended on the basis either of personal responsibility or of actual pledge of property. Either the banker trusts his customer or he does not. If he does trust him, because he is a good fellow or has valuable connections "at home," he hesitates to ask for a statement of the borrower's condition. He relies upon the gentlemanly instincts of the borrower in not asking more than he is entitled to, and, having formed his own opinion on the latter

subject, opens his facilities to the borrower accordingly. If the banker does not trust the borrower, he insists upon an actual pledge of property. Real estate mortgages will be taken, or at times personal property may be left in pledge in order to guarantee even a very moderate loan. The system has its attractive qualities, and as a banker of long residence in the Philippines once said to the writer: "During the Spanish régime we took no writings. Everything was on trust, and we seldom lost anything. If a man cheated, he was ostracized. Nowadays we have quantities of documents, but cheating has come." However possible and likable the older system may have been under certain conditions, it is not adapted to the methods of modern banking and is no longer useful even in the Orient, where business is conducted upon a simpler scale than in the West. The Philippine National Bank from the beginning felt the duty of improving so far as possible existing practices in borrowing, and it therefore endeavored to obtain from each borrower a complete "statement of condition" upon a modern form. It was necessary to encounter very strong prejudices against the furnishing of any such information, and not infrequently desirable business was rejected because of the point-blank refusal of the borrower to comply with the request for a statement. In other cases, where the borrower was sufficiently ready to answer the questions carried on the statement, his books were of so elementary or crude a nature that he could not make a satisfactory reply. It was necessary to secure the aid of auditing concerns in reviewing and improving books, and in this way at least a useful beginning was made toward the introduction of better business methods on the accounting side. The Bank also endeavored to obtain the introduction of better methods of warehousing and pledging staple products under a uniform warehouse receipt, and while thus far no distinct progress in that particular has been accomplished, a foundation of effort has been laid upon which valuable results may be developed at a later date. The Bank therefore has not been, even in its short career thus far, a purely money-making institution on the commercial side of its activities, but has sought to introduce, and has already met some success in applying, better and sounder business and banking methods upon

an equitable, non-partisan plan, without discrimination between groups, classes, or nationalities. If it can persevere in the work thus begun, it will bring about changes of significant and far-reaching character.

VIII

The agricultural side of the Bank's efforts deserves special attention. It has already been seen that particular provision had been made in the act creating the Bank for a system of loans based on agricultural lands, and that the Bank had itself taken over a substantial volume of mortgages formerly belonging to the Agricultural Bank of the Islands. As has also been noted, these mortgages were in some cases of doubtful liquidity; that is to say, the loans which they represented had been extended under conditions that made it questionable whether repayment of the principal at any reasonable date in the future could be expected.

In dealing with the question of agricultural loans and in mapping out a policy relating thereto, the Bank was confronted by a very difficult problem. As a public institution, the majority of its stock owned by the government, and a large percentage of its liabilities consisting of public deposits, its obvious duty was to meet all legitimate demands for agricultural loans in an equitable and fairly distributed manner. There is an unlimited field for agricultural development in the Philippine Islands, the requisites being capital and labor. Immense stretches of fertile land are totally unoccupied, and the demand for the products of the Islands at high prices is steady. Capital for agricultural exploitation is to be had only at exorbitant rates, and a bank which stood ready to lend upon any reasonable terms was certain to be overwhelmed with applications. The rates charged by the former Agricultural Bank had been 8 per cent per annum for mortgages secured by land having a Torrens title, and 10 per cent for mortgages with a Spanish title. These rates were tentatively adopted by the Philippine National Bank upon its organization, and it was immediately flooded with applications. These applications varied in amount from a few pesos to loans of many hundred thousand; and even before the Bank act had been adopted it was evident that this side of the

Bank's activities would be one of the most difficult to deal with. Much of the best land of the Philippines is held by prescriptive right and without any title. Many of the most industrious and deserving cultivators work upon such land. In other cases the titles are involved and difficult to trace, and the progress in issuing Torrens titles has been slow. Yet it was practically out of the question that the Bank should attempt to make loans on lands to which no regular title existed. Consequently it was early announced that in making loans the accommodation would be strictly limited to those cases in which either a Spanish royal title or a Torrens title could be offered. This at once cut down the total volume of applications by throwing out many which would otherwise have deserved attention, but still leaving the total number of applications much in excess of the resources of the institution immediately available under the charter for that purpose. It will be remembered that the amount of loans that could be made upon agricultural security was limited to one-half the capital and surplus plus such amount as might be received from sales of agricultural bonds, and, as no such bonds had been sold, the sums available for agricultural loans were consequently only one-half of the capital and surplus. Even this amount was kept down during the first few months by a ruling of the authorities of the government that the mortgages taken over from the Agricultural Bank must be counted as included in the limit set by the law—a ruling which if complied with literally would practically have more than exhausted the lending power of the Bank before it began business. Later a different ruling more in conformity with the probable intent of the framers of the act was obtained, and, as the payments on capital stock account increased, both from private purchases and from the falling due of government subscriptions, the sums available for agricultural use were considerably enlarged.

It was plain, however, from the start that even with the adoption of a conservative policy as to land titles, the making of agricultural loans must be conducted with all the safeguards that reasonable prudence could suggest. This was a duty entailed by the fiduciary character of banking in any event, but particularly by the fact that so much of the Bank's resources consisted of the

current funds of the different grades of government necessary for the essential maintenance of the solvency of the Islands. In order to insure safety and conservatism in the making of agricultural loans, it was decided that no such loans should be made without two reports from independent sources with reference to the actual value of the land offered as security, and that these two reports must be in substantial agreement. It was further decided that one of such reports should be obtained from a traveling agent in the employ of the Bank, who should visit the land and personally inspect it and decide upon its income-producing powers, the honesty of the proprietor, and other essential questions. It was not easy to obtain assessors whose judgment on such matters could be fully trusted, but a small corps was at length assembled from among the provincial assessors of taxes, men familiar with land values, whom the government was willing to transfer to the service of the Bank. In every case the report made by these inspectors was checked against a report of the provincial treasurer, and, wherever possible, additional data were obtained with reference to the proposed loan. In this way, within a month after the formal opening of the new Bank on July 24, it had proved possible to obtain reports upon, and to act with reference to, the large majority of pending applications, although the steady stream of new applications pouring into the Bank rendered it impossible to state at any given moment precisely what percentage had been disposed of. The Bank, at all events, had in one way or another passed upon most of the accumulated applications in hand at the time when it began operations.

One agricultural loan undertaking deserves particular mention. As has already been stated, the government in former years had been in the habit of depositing with local banks sums up to 2,500,000 pesos for the purpose of assisting agriculture, an expression which in practice had come to mean the making of loans on the standing sugar crop of the Islands. In practice, moreover, it had become customary to place practically all of this money on the sugar crop of the islands of Negros and Panay.

Shortly after the organization of the new Bank, the question came up whether it should undertake this work or allow it to be con-

tinued in the hands of the banks which had formerly carried it through. It was evidently a duty of the new institution, if it fulfilled its proper functions, to facilitate the government's actual banking operations, and it was consequently voted to assume this responsibility. The provision for depositing the funds of the government under the terms of the special act of the legislature whereby the sum of 2,500,000 pesos was made available for these special crop loans was of no practical importance, as the money was already in the hands of the Bank, so that the legislation on the subject amounted to nothing more than a formal approval or expression of a wish that the Bank should make loans on standing crops amounting to not more than 2,500,000 pesos, coupled with the assurance that that sum at least would be kept on deposit with the Bank for the period of the loan, presumably a year. Having undertaken the responsibility of carrying through this lending operation, a committee, consisting of the president and two directors of the Bank, visited the city of Iloilo early in July, having been preceded by an agent who received from the neighboring planters applications for loans. It was found that in many cases the planters who filed such applications were already carrying first mortgages on their land, such mortgages often running in favor of the former Agricultural Bank (and by it transferred to the Philippine National Bank itself). In other cases the planters would have outstanding second mortgages in favor of some local money-lender, or occasionally of some other bank, while in a few the almost inconceivable situation produced by the giving of a third mortgage at exorbitant interest rates was noted. The planters, too, in many cases had given special mortgages on their personal property, such as automobiles, machinery, and the like, so that in not a few cases the only remaining security they could offer was the actual crop standing in the fields. Even this was of doubtful value in some cases because of the fact that if interest payments on mortgages matured and were not met the holder of the mortgage could foreclose, taking, not only the soil, but the crops standing thereon. It was clear, therefore, that in order to undertake lending operations with any degree of safety, some very clear

principles must be adhered to. The following plan was therefore adopted and rigidly observed:

1. Reject any application for loans where the title to the land is not clear, unless indorsers or guarantors possessing clear property of undoubted value can be found.

2. Refuse loans even where the title is clear, unless there exists a reasonable equity in the soil.

3. In making loans, advance the money in instalments month by month in order that the planter may have only enough to pay actual necessary expenses.

4. In every case insist that mortgagors holding a prior lien on the land shall sign documents waiving all rights to the crops.

5. Obtain at least one reliable guarantor in the case of every loan, and where members of a family are joint proprietors of an estate insist that all shall become jointly and severally liable for the whole loan based on the estate.

6. Wherever possible obtain additional mortgages upon any other property the borrower may have, the same to be used as collateral.

7. Provide that the loan shall be paid off as fast as the sugar is ground and placed on the market.

These provisions were regarded by the planters as somewhat austere, and in a few cases applications for loans were withdrawn. In many other cases the applications were rejected, and in not a few where they were granted the planters found themselves unable to meet the conditions imposed. The total applications for loans had aggregated about 2,200,000 pesos, and the loans eventually granted by the committee were about three-fourths of this sum. Of this three-fourths a part was not taken out, owing to the failure of some planters to comply with the conditions on which the loans were promised. Ultimately not over two-thirds of the aggregate applications for loans were really acted upon in practice. Prior to the organization of the Bank it had been supposed that the institution would practically devote itself to the dispensing of funds without security, and that no farmer need ever be in want of money. The political worship of the farmer is as highly developed in the South Pacific as in the United States, and the action of the Bank was consequently a severe disappointment. This immediately led to the application of severe pressure from various sources upon the government at Manila, which, however, at no time yielded to the demands thus voiced. It had long been recognized by thoughtful

men that economic conditions in the sugar region were anything but satisfactory. The average cost of production per picul of sugar, without allowing anything for interest on the value of land, had probably been of late years between four and five pesos for muscovado, while the average selling price of this same quality for the past ten years, f.o.b. Iloilo, has been about five pesos. Only as an exceptional matter, therefore, has the farmer been able to realize a bona fide profit on the cultivation of sugar, owing to the use of obsolete and inefficient machinery in which a large proportion of the cane juice was lost, while, in the processes of boiling and refining, dirt and extraneous matter were absorbed in large quantities, so that it was often possible for buyers to reject the sugar entirely or to penalize it heavily because of alleged difficulty in its use. The planters have for years past kept their heads above water by continuous loans, with the result that they are today heavily in debt, as already seen, and with no prospect whatever of eventually clearing themselves unless they succeed in securing the application of modern methods of sugar manufacture with the accompanying economies. The government has by its continuous subsidies in the form of crop loans aided in the development of this uneconomic condition, while the people, always prone to look for outside aid, have fallen into the habit of regarding themselves as entitled to that assistance. At some time it would have been necessary to begin a withdrawal from this impossible position unless the government was willing to continue its advances up to the point where collapse occurred through shrinkage in sugar values precipitating a condition of practical repudiation of debt or an expropriation of landowners. Although the application of a surgical method of treatment to this serious complaint was by no means pleasant, it was unquestionably the only true remedy under the circumstances, and the management of the crop loans of 1916 was probably the first application of a strict and sound method of estimating the credit to which the planters were entitled. Even the loans made under these conditions were far more liberal than a bank would ordinarily have been warranted in undertaking had it been guided solely by a regard for either the profit-making side of its activities or the entire safety of its funds.

What is undoubtedly needed in the sugar region of the Philippines is the investment of a substantial amount of new capital in the erection of modern "centrals" or mills. The erection of these mills, eliminating the old and inefficient method of grinding, and substituting modern processes of extracting the sugar, would enable the planters to get the benefits of the fertility of their soil and to overcome the great cost of placing their sugar on the Western markets, due to distance and isolated position. The Philippine National Bank undoubtedly may, under its charter, guarantee bonds designed to aid in the erection of such mills, and, should it succeed in interesting investors in such enterprises, it would have adopted the best, if not the only, means of genuinely ameliorating the condition of the sugar-planter and of establishing a basis for the eventual liquidation of the loans already made to him. The continuance of the practice of advancing funds for the conduct of sugar cultivation upon an economical basis is an injury to the planter and a hazard to the funds either of the government or of the Bank. The situation in the southern Islands is representative of the danger that may develop in almost any part of the Philippines through the unwise application of funds loaned in small amounts. The lending agent must have a just eye to the future and be able to direct local enterprises into proper channels, or these advances are unlikely to benefit anyone, and may even be harmful. The responsibility thus thrown upon the Bank is very great in many ways, and the results of wise action on its part are likely to be correspondingly valuable. It is in this department of the undertaking that the most serious problems of the institution are likely to be met with in the future.

IX

From what has been said it will be seen that the work of the Philippine National Bank has already been of material service to insular interests and to the average man throughout the Philippine Islands at a time of great emergency when some heroic remedy had to be quickly applied if the economic interests of the country were to be saved from disaster. The rendering of such special service is not a title to the permanent continuance of any institu-

tion. It will, however, be evident to those who have carefully considered the circumstances which led to the organization of the Bank that there is an economic reason for its existence and that it may become, not merely a money-making institution, but an agency equipped for the performance of important governmental functions and for advancing the interests of the community generally. It has, of course, and will probably continue to have, the duty of keeping the currency of the Philippine Islands interchangeable, at a reasonable rate, with that of the United States. It has the function of safekeeping and transmitting funds from all parts of the Islands to other parts on behalf of the government and of individuals. It has through its provincial agencies an important duty as the recipient and conservator of the funds of the people. Important as these functions are, however, they are not the largest or most significant responsibilities which rest upon the Bank. Fundamentally the institution is called upon to provide a direct and economical channel of communication between the insular investment and financial market and that of the United States. As will have been inferred from what has been said, the interest rates of the Philippines are excessively high, the supply of capital is scanty, and the means for promoting and developing industry are limited in the extreme. The methods of lending, the types of commercial paper already prevailing, the accounting and business methods employed by many firms, are unsatisfactory and need improvement if the community is to succeed in getting the advantage of more abundant and cheaper accommodation. To tone up in this way the business practice of the community and thereby to encourage the investment of capital in the Islands as well as to give the insular merchant immediate access at reasonable rates to the funds needed to carry his products and deliver them in their ultimate market is the most direct duty of the Bank when viewed from the larger standpoint.

The Bank was at first proposed because of the service that it would render to agriculture, and had it not been for the belief that it would render such service it is perhaps true that no such institution would ever have been established. However, those who drafted the charter had the wisdom and foresight to see

that no bank could succeed unless it were both agricultural and commercial. There is no such separation between agricultural and commercial enterprises as is indicated by the names themselves or as is often suggested by those who speak and think somewhat loosely on the subject. The Philippines is an agricultural country in the sense that it has but little manufacturing, but the process of marketing and disposing of its agricultural staples is as much a part of the process of production as is that of putting the seed in the ground and cultivating it until the crop is matured. Without the high development of this so-called commercial side of the Bank's business it could never succeed as an agricultural institution, as will be seen from the following considerations.

Agricultural loans are necessarily long and represent capital put into the improvement of the soil and of the conditions of production. A bank which employs any considerable part of its funds in such enterprises has quickly put them into an immobile or permanent form from which they will be withdrawn very slowly or perhaps never. What it must do is to induce others who have capital to invest upon a long-term basis to supply that capital for the use of the agricultural public, and it can do this only by guaranteeing such investors that their funds are safe and will be repaid upon maturity. This is exactly what the Philippine National Bank undertakes to do, its charter authorizing it to make only limited loans upon landed securities, but granting to it full authority to sell bonds against the mortgages thus obtained and then to reinvest the capital arising therefrom. In other words, the framers of the Philippine National Bank Act were willing to entrust the Bank with the function of guaranteeing, safeguarding, and promoting the investments in agricultural lands that might be made from its funds and from those of others intrusted to it. They believed that the Bank would under these conditions make its loans safely and wisely and would so arrange matters as to insure the eventual repayment of the loans. Provision, indeed, was made for recovering them upon an amortization basis. It was, however, clearly perceived that no investors at a distance (and the Philippine Islands, like other oriental countries which have no domestic market, must rely upon the peoples of the West to furnish them

with capital) would ever be induced to accept such a guaranty and to advance funds at any reasonable rate of interest unless the bank guaranteeing the funds was known and recognized by them as a strong institution able to fulfil its obligations and amply equipped to meet every demand that might be brought to bear upon it.

The careful and extensive development of the commercial business of the Philippine National Bank is thus dictated by considerations of a twofold character. First of all, the farmer is probably almost as directly and immediately benefited by the improvement in the prices of his products which comes from economical marketing and reasonable banking accommodation for that purpose as he is by any other form of assistance. Secondly, the rendering of direct assistance through actual long-term loans is possible in any considerable amount only in the event that investors are encouraged and assured of safety through the guaranty of a strong institution possessing a large liquid capital which is rendered available for the purpose of meeting the claims of such creditors as rapidly as they fall due. The success of the Philippine National Bank as an agricultural institution is therefore bound up with, and dependent upon, its success as a commercial institution. Should this ever be forgotten, and should the institution ever be forced by unwise legislation to invest a large part of its funds in long-term agricultural loans instead of getting them through bond issues in the way already described, the effect would be immensely to weaken its credit, with the result that there would be an eventual loss of deposits and of business, with corresponding inability to impress the investor with the soundness and strength of the institution, so that in the last analysis there could be expected to be but little reliance upon capital outside of that actually in the possession of the institution through subscriptions to its stock.

X

There is another problem connected with the Philippine National Bank whose gradual evolution will be watched with profound interest by those who are desirous to see steady and successful progress in the Philippines. This is the question whether

the Bank can maintain itself absolutely free of political interference or control. It is this rock of "politics" upon which many financial institutions in the Latin-American countries have split. They have found themselves under pressure to make loans and to engage in operations that were manifestly unwise from a banking standpoint, or they have been compelled by legislation to release their funds for uneconomical purposes, with resultant disaster. The effect has been to render them unable to maintain their obligations or to protect the governments whose finances they practically represented. The invariable consequence of such financial mismanagement has been political shipwreck, involving the interference of other nations or of foreign financiers, who, under the guise of recovering their own property, occasionally help themselves to much more than they ever advanced. Americans will watch with interest the progress of the Philippine National Bank to see whether the Islands, with their new democratic form of government, can successfully resist this temptation. Should they not fall a prey to it and should they demonstrate the capacity to place the institution which holds the bulk of their national funds, in the hands of safe, conservative, and trustworthy men and then to trust the judgment of these men sufficiently to put aside all selfish and unsound schemes for the use of the people's money, they will have established a prima facie case for the steady increase of their power over their own affairs. Should they, on the other hand, exhibit a disposition, even though checked by the interference of American authorities, to follow the less conservative precedents and to employ the funds of their national bank as a means of satisfying local or political claims or paying personal debts, they will have given strong reason for thinking that the further growth of local authority in the Philippines pending a further development of financial self-control will be unwise. The debauching of the directorate or of the official or employed staff of the Bank by the introduction of political nepotism or the use of appointments to pay personal or party indebtedness, much less the making of loans for such purposes, need no more than be referred to here. Such deviations from uprightness would be as disastrous in the Philippine Islands as they are anywhere else, and, as experience has too often shown, no institu-

tion whose management is vitiated in such a way can last long. Of all institutions, banks are probably the quickest to suffer from the infliction of such evils upon them. The possibilities in that direction need not be more than mentioned.

In all this, however, the situation in the Philippines is no different from that which exists elsewhere. Dangers of the kind just briefly set forth beset every public institution in every country; they have in the past been found as frequently in the United States as anywhere, and they are not altogether absent today. To suggest that such a danger exists in the Philippines is no necessary reflection on the inhabitants of the Islands, their leaders, or their rulers. They are, however, subject to the same possibility of error as other peoples, and should these possibilities become actualities the results will make themselves felt more quickly in the Philippines than in most other countries, if for no other reason than because of the great distance of the Islands from their market and the difficulty of keeping those upon whom the Islands are dependent for capital fully advised of what is occurring.

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